

**REVISED DIRECT TESTIMONY OF**

**RYDER C. THOMPSON**

**ON BEHALF OF**

**THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2020-125-E**

**IN RE: APPLICATION OF DOMINION ENERGY SOUTH CAROLINA,  
INCORPORATED FOR ADJUSTMENTS OF RATES AND CHARGES**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Ryder C. Thompson. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as the Director of Utility Rates and Services for the Office of Regulatory Staff (“ORS”).

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I received a Bachelor of Science degree in Mechanical Engineering Technology from the State University of New York. Before assuming the role of Director of Utility Rates and Services, I held the position of Manager of Nuclear Programs for ORS. Prior to joining the ORS, I was employed by the South Carolina Electric & Gas Company (“SCE&G”) for eight (8) years supporting SCE&G’s New Nuclear Development project at the V.C. Summer Nuclear Station. I was promoted to the position of Licensing Supervisor leading SCE&G’s Inspection, Test, Analysis and Acceptance Criteria (“ITAAC”) program. While at SCE&G, I received the Senior Reactor Operator Certification for the Westinghouse AP1000 nuclear power plant.

Prior to joining SCE&G, I was employed by General Dynamics Electric Boat Corporation (“Electric Boat”) for eight (8) years supporting the design and construction of

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nuclear submarines. While at Electric Boat, I held engineering positions of increasing levels of responsibility, working as an Engineer, Senior Engineer and Engineering Supervisor. I supported engineering activities associated with the design and construction of the first *Virginia* class attack submarine, several engineered refueling overhauls of nuclear submarines as well as simultaneous conversions of *Ohio* Class (Trident) ballistic-missile nuclear submarines into multi-mission, guided-missile nuclear submarines.

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?**

**A.** Yes. I have previously testified before the Commission.

**Q. WHAT IS THE MISSION OF ORS?**

**A.** ORS represents the public interest as defined by the South Carolina General Assembly as:

[T]he concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

**Q. WHAT IS THE PURPOSE OF YOUR REVISED DIRECT TESTIMONY IN THIS PROCEEDING?**

**A.** The purpose of my Revised Direct Testimony is to:

- 1) Introduce the ORS witnesses who will testify on various matters related to the Dominion Energy South Carolina, Inc.’s (“DESC” or “Company”) Application for Adjustment of Rates and Charges (“Application”) for the twelve months ending December 31, 2019 (“Test Year”);

- 2) Provide a brief description of ORS's review of the Application, ORS's efforts to resolve complaints from DESC's customers and DESC's storm response partnership with ORS;
- 3) Provide a recommendation to improve the transparency of future cost recovery related to the Company's future economic development activities; and
- 4) Provide a brief summary of certain ORS recommendations that have significant impact to customers and the investment and maintenance of the Company's facilities in order to provide high-quality and reliable electric service.

**Q. PLEASE INTRODUCE THE ORS WITNESSES THAT PROVIDE DIRECT TESTIMONY.**

**A.** The witnesses that provide Direct Testimony on behalf of ORS are:

- 1) **Daniel F. Sullivan**, ORS Director of the Audit Department. Mr. Sullivan describes the ORS procedures used by the Audit Department to perform an examination of the Company's Application which was filed with the Commission on August 14, 2020. Mr. Sullivan discusses the findings and recommendations resulting from the ORS's examination.
- 2) **William C. Kleckley**, ORS Senior Auditor. Mr. Kleckley describes the ORS findings and recommendations, as a result of the Audit Department's examination of the Company's requested adjustments related to incentive compensation, health care, synergy savings and other requested adjustments.
- 3) **Anthony D. Briseno**, ORS Audit Manager. Mr. Briseno provides ORS's recommended adjustments related to the Company's requests for various deferral and accrual accounting treatment and other requested adjustments.

- 1           4) **David J. Garrett**, Managing Member of Resolve Utility Consulting, PLLC. Mr.  
2           Garrett's is a consultant specializing in public utility regulation and focused on cost of  
3           capital and depreciation. Mr. Garrett addresses the Company's proposed depreciation  
4           study and ORS's recommended changes.
- 5           5) **Lane Kollen**, Vice President and a Principal of J. Kennedy and Associates, Inc.  
6           ("Kennedy and Associates"). Mr. Kollen provides recommendations for recovery of  
7           incremental V.C. Summer Units 2 and 3 ("Summer 2 and 3") cancellation costs through  
8           the base revenue requirement, the effects of the Tax Cuts Jobs Act ("TCJA") on the  
9           base revenue requirement and the impact of the Company's regulatory asset for the  
10          Summer 2 and 3 transmission deferred operating expenses included in rate base and  
11          amortization expense in the base revenue requirement. In addition, Mr. Kollen  
12          addresses and makes recommendations related to the asset net operating loss,  
13          accumulated deferred income taxes and excess deferred income taxes ("EDIT").
- 14          6) **Dr. J. Randall Woolridge**, Professor of Finance and Endowed University Fellow in  
15          Business Administration at Pennsylvania State University. Dr. Woolridge provides his  
16          opinion and recommendations regarding the fair rate of return or cost of capital that the  
17          Commission should consider in setting rates for DESC.
- 18          7) **Anthony M. Sandonato**, ORS Senior Regulatory Manager. Mr. Sandonato addresses  
19          certain adjustments related to DESC's fuel inventory, power purchases from South  
20          Carolina Generating Company, Inc. during the Test Year, advance meter infrastructure  
21          and local business offices.
- 22          8) **Brandon S. Bickley**, ORS Regulatory Analyst. Mr. Bickley focuses on the Savannah  
23          River Site refund reversal impact removal, the Company's request for a storm

remediation cost deferral, Company's request to reinstate the Storm Damage Remediation Rider, Company's request for a vegetation management accrual, various other accruals and the amortization period adjustments proposed by ORS to certain deferrals.

9) **Michael L. Seaman-Huynh**, ORS Deputy Director of Energy Operations. Mr. Seaman-Huynh focuses on the Company's cost of service study, revenue verification, revenue requirement distribution, rate design, tariff changes, and certain pro forma adjustments. In addition, Mr. Seaman-Huynh discusses ORS recommendations for the Company's transmission lines built to support the abandoned Summer 2 and 3, merger conditions and overall impact of ORS's recommendations on customer's bills.

**Q. PLEASE DESCRIBE ORS'S EFFORTS TO REVIEW THE COMPANY'S APPLICATION.**

**A.** ORS diligently reviewed and analyzed the Company's Application. ORS engaged three (3) experts to examine the complex adjustments proposed by the Company in the Application, which included issues related to the merger and acquisition by Dominion Energy, Inc. and the abandonment of construction for Summer 2 and 3. ORS's review helps to ensure DESC customers received the promised merger savings and that DESC honored the commitments made to customers in 2018. While discovery is on-going, as of the date of ORS's direct testimony, ORS issued thirteen (13) separate discovery requests to DESC that included approximately 382 individual questions. To date, DESC responded to the ORS discovery requests in a timely manner. ORS appreciates the Company's efforts to respond quickly to its discovery.

During the discovery process, the Company and ORS identified and corrected several adjustments contained in the Application which resulted in a reduction of approximately \$11,295,000 from the proposed retail revenue increase identified in the Application.<sup>1</sup> These corrections are addressed and incorporated in the exhibits of ORS witnesses Sullivan and Seaman-Huynh. ORS observed that the Company made a substantial effort to identify and properly classify non-allowable expenses.

**Q. PLEASE DESCRIBE DESC'S CUSTOMER SERVICE AND STORM RESPONSE.**

**A.** ORS Consumer Services Division assists DESC's customers with service and billing concerns in the event the customer is not satisfied with the response by the Company. In general, DESC's customers contacted ORS for assistance less frequently than customers of other Commission-regulated electric utilities. Table 1 (below) provides a summary of the number and types of complaints ORS receives from DESC customers.

<b><u>Table 1</u></b>				
<b><u>Complaint Type</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019 (Test Year)</u></b>	<b><u>2020 (to present)</u></b>
Service Quality		41	40	19
Customer Billing	212	171	72	35
Assistance with Payment Arrangement	234	313	186	33

ORS serves as the primary liaison with all electric providers during an activation of the South Carolina Emergency Management Division Emergency Support Function 12 ("ESF-12"). Effective partnerships with electric providers are critical to timely and safely restore service after storms and other natural weather events. The Company quickly

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<sup>1</sup> Response to ORS AIR 13-1.

1 restored electric service as a result of storms and other weather events during the COVID-  
2 19 pandemic while assisting other utilities with power restoration efforts. DESC  
3 volunteered to assist ORS ESF-12 in distributing to other utilities Personal Protective  
4 Equipment (PPE) provided to the state. ORS appreciates the partnership with DESC  
5 which extends beyond simply restoring electric service. Often DESC assists ESF-12 with  
6 solutions to broad issues which can include community sheltering, safe re-entry of  
7 residents and businesses, proactive communication and assistance to other Emergency  
8 Support Functions.

9 **Q. PLEASE EXPLAIN ORS'S RECOMMENDATION TO IMPROVE**  
10 **TRANSPARENCY RELATED TO THE FUTURE COST RECOVERY OF DESC'S**  
11 **ECONOMIC DEVELOPMENT ACTIVITIES.**

12 **A.** The Company requests recovery of expenses related to economic development  
13 activities in its service territory. In many instances, the Company made annual  
14 contributions to regional economic development consortiums during the Test Year. In  
15 response to ORS discovery requests, the Company provided detailed data to demonstrate  
16 that the economic development projects in DESC's service territory likely will result in job  
17 growth and electric sales growth. While ORS does not object to inclusion of the Test Year  
18 economic development expenses in this general rate proceeding, DESC's future  
19 contributions to regional economic consortiums require careful examination to ensure that  
20 customers are actually receiving the claimed benefits associated with customer and sales  
21 growth.

22 ORS recommends the Company be required to provide quarterly filings to the  
23 Commission and ORS, identifying the investments made supporting all economic

development activities funded by the DESC in its service territory. The quarterly report should, at a minimum, include the following information: date of announcement, company name, county, industrial type, the DESC total investment amount, potential and actual jobs created, potential and actual electric sales, and the name of the regional economic development consortium or alliance to ensure greater transparency and accountability. The quarterly report will provide the Commission and ORS with information in a more timely and transparent manner.

**Q. PLEASE SUMMARIZE THE ORS ADJUSTMENTS THAT HAVE THE LARGEST DOLLAR IMPACT ON THE RATE INCREASE REQUESTED BY DESC.**

**A.** ORS proposes numerous adjustments to the DESC Application as detailed throughout other ORS witness's testimony. In summary, ORS's adjustments result in a retail revenue requirement increase of \$11,336,000 which results in a total retail revenue requirement of \$2,078,707,000. If the Commission were to accept ORS's adjustments, the net impact will result in a increase to the average monthly bill for the typical residential customer on Rate 8 using 1,000 kWh by approximately \$0.07 from \$122.31 to \$122.38 when the changes to the demand-side management Rider are incorporated. The Company requested in its Application to increase the average monthly bill for the typical residential customer on Rate 8 using 1,000 kWh by approximately \$9.68 from \$122.31 to \$131.99.

Below, I summarize the major factors that support ORS's recommendation to the Commission to reduce the DESC requested rate increase.



**Capital Structure and Rate of Return**

ORS witness Dr. Woolridge recommends a hypothetical capital structure be adopted for DESC and a return on equity of 8.90%. The net impact of these adjustments results in an approximately \$65 million reduction to the Company's total request.

**Cost of Debt**

ORS witness Kollen identifies that the Company's long-term debt rate of 6.46% contradicts the specific requirements of the Commission Order No. 2018-804(A) in Docket No. 2017-370-E. ORS witness Kollen recommends removal of the additional Summer 2 and 3 cancellation costs by setting the Company's cost of long-term debt to 5.56%. The net impact of this proposed adjustment results in an approximate \$24 million reduction to the Company's total request.

**Excess Deferred Income Taxes**

ORS witness Kollen recommends an adjustment to the amortization and refund period for the remaining balance of the property-related unprotected EDIT regulatory liabilities. The ORS adjustment proposes a five-year period in lieu of the 50-year amortization period currently in place for property-related unprotected EDIT. The net impact is a reduction in income tax expense of approximately \$15 million compared to the amount included by the Company's request.

**Depreciation Accrual**

ORS witness Garrett recommends an adjustment to reduce the Company's proposed depreciation accrual due to adjustments to the weighting of interim retirements, the terminal net salvage rates and the service lives for several transmission and distribution

accounts used by the Company. The net impact is a reduction of approximately \$18 million compared to the total amount included by the Company's request.

**Q. WILL YOU UPDATE YOUR REVISED DIRECT TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?**

**A.** Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information not previously provided by the Company, or from other sources, becomes available.

**Q. DOES THIS CONCLUDE YOUR REVISED DIRECT TESTIMONY?**

**A.** Yes, it does.